

CATO INSTITUTE

MEMORANDUM

FROM: Randal O'Toole
RE: Response Interim Charge 1B
DATE: September 15, 2020

Interim Charge 1B

User fees are a better way of paying for highways and other transportation than any kind of taxes. Infrastructure that is paid for out of user fees tends to be better maintained than infrastructure that is paid for out of taxes because politicians are more likely to spend tax dollars on new construction than on maintenance, while administrators who rely on user fees know that a decline in infrastructure quality will lead to a decline in revenues. User fees also provide transportation agencies with market signals about what infrastructure needs to be expanded and the provide users with market signals about how much alternative forms of transportation really cost.

Highway user fees are already the dominant source of funds for state highways, but Texas diverts most gasoline taxes and vehicle registration fees to education and other non-highway purposes, thus weakening the user-fee concept. Gasoline taxes as a user fee are already weak enough because they don't keep up with inflation, they don't adjust for more fuel-efficient vehicles, they don't provide adequate funding for local roads, and they don't do anything to cure congestion.

All of these problems can be solved by shifting to mileage-based user fees, provided, of course, that the fees are dedicated to the road systems that generate them and are not diverted to transit, education, or other non-highway activities. Texas should immediately begin a transition to such fees.

One state that is already doing so is Oregon, which coincidentally was the first state to collect gas taxes dedicated to road construction and maintenance in 1919. In 2015, Oregon again became the first state to introduce a mileage-based user fee program. This followed up on a much smaller-scale pilot program tested in 2006.

The 2015 program began using volunteers who could choose between having a GPS device added to their car or simply recording odometer readings. Initially, the fee was 1.5 cents per mile, but when Oregon gas taxes were raised from 30 to 36 cents a gallon, the fee was raised to 1.8 cents per mile. Volunteers are refunded their gasoline taxes based on the rated fuel-economy of their car.

Participants who rely on odometer readings have to pay for all miles they drive, even if they drive out of state. Those who choose the GPS option only pay for miles in state. After Oregon began its program, the state of Washington began its own program and the two states have worked to insure that they are interoperable, so Oregon participants would pay Oregon a fee when they drive in Oregon, pay Washington a fee when they drive in Washington, and pay ordinary gas taxes when they drive in other states.

Non-participants, whether from in state or out of state, continue to pay gas taxes. Eventually, the goal is to eliminate gas taxes and put everyone on a pay-by-mile basis, in which case drivers from other states that do not yet have mileage-based fees would have to obtain a GPS device when they enter Oregon. Heavy trucks in Oregon already pay a weight-mile tax, so this isn’t a major change for them.

Oregon’s system guarantees privacy by having private vendors collect the GPS data. Users pay the private vendors, who pass the money to the state, so the state doesn’t know where or when people drove. Users can choose from several vendors so the vendors have an incentive to keep data private or risk losing business to others who do.

Although the program currently uses one flat fee that goes to the state, eventually GPS-measured fees will go to the owners of whatever roads users drive on, whether they are cities, counties, the state, the federal government, or private road owners. As each road owner joins the program, they will be able to set the fees for their roads. Fees can also be varied by time of day in order to reduce traffic congestion.

In 2019, the state legislature expanded the program by imposing stiff vehicle-registration fees on electric and plug-in hybrid cars to compensate for the gas taxes they save but allowing owners of these vehicles to waive the fees by joining the mileage-based fee program. Eventually, it is likely that the state will require all new car buyers to join the program and the long run goal is to have it completely replace the gas tax.

I have been a volunteer in Oregon’s program since 2015 and the most important thing I’ve learned is how little these road user fees cost me. Though auto travel is as important as electricity or telecommunications, the monthly fees I pay are a tiny fraction of my electric or communications bills. I also feel confident that the vendor I use has protected my privacy. For more detailed information about how the program works, see the state’s [2017 report](#).